HIGHWAYS REVOLVING FUND

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2000

Provincial Auditor Saskatchewan

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AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the balance sheet of the Highways Revolving Fund as at March 31, 2000 and the statements of operations and accumulated operating surplus/deficit and changes in accumulated net expenditure for the year then ended. The Revolving Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Revolving Fund as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Regina, Saskatchewan
October 13, 2000

Fred Wendel, CMA, CA
Acting Provincial Auditor

Statement 1

HIGHWAYS REVOLVING FUND
BALANCE SHEET
As At March 31

	2000	1999
ASSETS		
Current:		
Accounts receivable	$ 3,143,870	$ 6,309,614
Inventories	3,269,128	3,106,787
	6,412,998	9,416,401
Non-current:		
Construction materials inventory (Note 5)	401,290	584,234
Construction, maintenance and other equipment (Note 6)	46,101,260	43,143,647
Capital lease vehicles (Note 7)	1,756,112	2,456,368
	48,258,662	46,184,249
	$ 54,671,660	$ 55,600,650
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Accounts payable	$ 2,919,204	$ 1,357,622
Current portion of obligation under capital lease vehicles (Note 8)	689,291	778,603
	3,608,495	2,136,225
Non-current liabilities:		
Long-term obligations under capital lease vehicles (Note 8)	999,465	1,123,693
Accumulated net expenditure (Statement 3)	51,531,722	56,766,968
	52,531,187	57,890,661
Fund equity:		
Accumulated operating deficit (Statement 2)	(1,468,022)	(4,426,236)
	$ 54,671,660	$ 55,600,650

(See accompanying notes to the financial statements)

HIGHWAYS REVOLVING FUND
STATEMENT OF OPERATIONS AND ACCUMULATED OPERATING SURPLUS/DEFICIT
For the Year Ended March 31

	2000 Budget (Note 12)	2000 Actual	1999 Actual
Revenue:			
Equipment Rental	$ 17,890,000	$ 18,447,477	$ 14,892,186
Custom Work	4,010,000	3,700,818	5,485,466
Store Sales & Labour	4,300,000	1,975,304	4,572,906
Total revenue	$ 26,200,000	$ 24,123,599	$ 24,950,558
Expenses:			
Repair	$ 4,980,000	$ 4,755,942	$ 4,718,999
Operating	4,903,000	4,906,003	4,519,561
Amortization	3,660,000	4,147,642	3,488,285
Custom Work	3,614,000	3,397,878	4,929,550
Store Sales & Labour	4,300,000	1,966,578	4,565,266
Direct Overheads	3,293,000	3,565,020	3,451,324
Direct expenses	$ 24,750,000	$ 22,739,063	$ 25,672,985
Gross margin	$ 1,450,000	$ 1,384,536	$ (722,427)
General Overhead Expenses	$ 1,274,800	$ 1,195,431	$ 1,335,244
Net Income (Loss) from operations	$ 175,200	$ 189,105	$ (2,057,671)
Net (Loss) on Sale of Equipment	(175,000)	(430,891)	(227,811)
Recovery of Prior Years' Deficits - General Revenue Fund	2,461,000	3,200,000	2,100,000
Net Income / (Loss)	$ 2,461,200	$ 2,958,214	$ (185,482)
Accumulated operating deficit, beginning of year	$ (5,954,989)	$ (4,426,236)	$ (4,240,754)
Accumulated operating deficit, end of year - to Statement 1	$ (3,493,789)	$ (1,468,022)	$ (4,426,236)

(See accompanying notes to the financial statements)

HIGHWAYS REVOLVING FUND
STATEMENT OF CHANGES IN ACCUMULATED NET EXPENDITURE
For the Year Ended March 31

	2000	1999
Financing (provided by) required for operating activities:		
Net (income) loss after operating recovery	$ (2,958,214)	$ 185,482
Items not affecting working capital		
- amortization (Note 9)	(4,147,642)	(3,488,285)
- (loss) on disposal of capital assets	(430,891)	(227,811)
Net increase (decrease) in working capital items related to operations (Note 10)	(4,564,985)	4,368,722
	$ (12,101,732)	$ 838,108
Financing (provided by) required for investing activities:		
Decrease in construction materials inventory	$ (182,944)	$ (221,657)
Purchase of equipment	6,827,996	6,410,932
Proceeds from sale of equipment	(464,632)	(337,726)
	$ 6,180,420	$ 5,851,549
Financing (provided by) required for financing activities:		
Decrease in obligation under the capital lease	$ 686,066	$ 650,440
Net increase (decrease) in financing requirements	$ (5,235,246)	$ 7,340,097
Accumulated net expenditure, beginning of year	$ 56,766,968	$ 49,426,871
Accumulated net expenditure, end of year - to Statement 1	$ 51,531,722	$ 56,766,968

(See accompanying notes to the financial statements)

HIGHWAYS REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2000

1. Authority and Definition of Reporting Entity

The authority for this Revolving Fund was originally contained in Section 21 of *The Highways Act* and is continued under Section 7 of *The Department of Highways and Transportation Act, 1997*. The purpose of the Revolving Fund is to provide a system of accounting that accumulates the costs of equipment, materials and labour used in the provision of construction and maintenance services. These costs are charged back to the Department and other parties on an equitable basis.

2. Significant Accounting Policies

The financial statements are prepared in accordance with generally accepted accounting principles. These financial statements do not present a cash flow statement because the required cash flow information is readily apparent from the Statement of Changes in Accumulated Net Expenditure and Note 10. The following accounting policies are considered significant:

a) Net Expenditure/(Recovery)

The net expenditure/(recovery) is the cash flow from/(to) the General Revenue Fund. It represents the total annual financing requirements resulting from net capital acquisitions, working capital changes and net cash flows from operations.

b) Accumulated Net Expenditure

The accumulated net expenditure of the Revolving Fund includes the following:

i) working capital advanced by the Minister of Finance as at March 31, 1982 to the Revolving Fund;

ii) the net expenditure/(recovery) for each fiscal year thereafter; and

iii) the book value of assets acquired at no charge from another government agency.

c) Inventories

Inventories are valued at the lower of original cost, as calculated on a moving average basis for each shop, and net realizable value.

d) Amortization

i) Power Equipment

Construction and maintenance equipment is amortized on a unit of use basis (hours). The amortization rate per hour of use for each item is calculated to

allocate the capital cost of that item, less residual value, over the life expectancy of the asset.

Tractors	3,000 to 10,400 hours
Motor Graders	16,000 to 18,000 hours
Heavy Trucks	3,750 to 15,000 hours
Trailers	2,000 to 12,000 hours
Construction Equipment	2,000 to 16,000 hours

ii) Computer Systems

System Development costs over $500 are amortized on a straight-line basis at the rate of 20% per year.

iii) Computer Equipment

Computer Equipment over $500 is amortized on a straight-line basis at the rate of 25% per year.

iv) Capital Lease Vehicles

Capital lease vehicles are amortized on a straight-line basis over the term of the lease. The typical lease term for these units is 6 years. Major additions or modifications made to motor vehicle units leased from the SPMC (a related party) are treated as capital cost additions. The amortization rate per unit of use for each item is calculated to allocate the capital cost of that item. Amortization is calculated on the capital cost additions for a unit, on a straight-line basis over the remaining term of the lease for that unit.

v) Other

Salt storage bins are amortized on a straight-line basis at a rate of 5% per year.

For all other sundry, survey, repair shop, office equipment and furniture, amortization is calculated as follows:

- Items costing $500 or more are amortized on the straight-line basis at a rate of 10% per year.

e) Sales

Sales of the Revolving Fund include the following:

i) Equipment Rental Revenue

The rental rates charged by the Revolving Fund for use of its construction and maintenance equipment are calculated to recover the following Revolving Fund costs:

- amortization
- repair and overhaul

- operating costs of fuel, oil and licence registration and insurance fees; and
- administration costs of the stores and repair depots and Revolving Fund office.

Each of the foregoing components of the rental rate is reviewed annually, revised as required, and approved by Treasury Board.

ii) Custom Work

The Revolving Fund uses the percentage of completion method to recognize construction revenue on custom work.

iii) Store Sales and Labour

Store Sales and Labour rates are calculated to recover the Revolving Fund's direct costs. All sales are to the Department of Highways and Transportation.

f) Surcharges

Surcharges levied by the Revolving Fund pursuant to Treasury Board directives are required to be returned to the General Revenue Fund. Any unremitted surcharges are recorded as a liability.

g) Capital Lease Vehicles

Vehicles taken on lease terms which transfer substantially all of the benefits and risks of ownership to the Revolving Fund are accounted for as capital leases.

3. Authorized Financing

Subsection 7(6) of *The Department of Highways and Transportation Act, 1997* specifies that the maximum amount of accumulated net expenditure which may be outstanding at any time will be set by order of the Lieutenant Governor in Council. A maximum amount of $80,000,000 was established in April 1983 and was reduced to $55,000,000 in January 1994 by Order in Council. It was then increased by Order in Council to $60,000,000 in March 1999.

4. Disposition of Accumulated Operating Surplus or Deficit

In accordance with Section 7(6) of *The Department of Highways and Transportation Act, 1997,* the Minister shall pay to the General Revenue Fund all or any part of any surplus in the Revolving Fund that Treasury Board may direct. Treasury Board has specified that the maximum accumulated surplus/deficit for the Revolving Fund shall be $1,000,000. Treasury Board has also specified that if at the end of a fiscal year the accumulated surplus/deficit exceeds the maximum, then any surplus/deficit in excess of the maximum shall, as soon as possible after the close of the fiscal year, be paid to/from the General Revenue Fund.

However, if any deficit is in fact a subsidy and not a deficit due to business fluctuations, it must be recovered from the General Revenue Fund (Department of Highways and Transportation's appropriation) in the same year. The Department budgets for a subsidy to the Revolving Fund in the same year that the deficit is expected to occur.

5. Construction Materials Inventory

The construction materials inventory is an aggregate stockpile that will not be used in one year. The entire inventory has been classified as a non-current asset.

A survey was completed at the 1999-2000 fiscal year-end and an adjustment of $163,000 was made to this stockpile. This amount is reflected in the Direct Overheads.

6. Construction, Maintenance and Other Equipment

Details of this equipment are as follows:

	2000			1999
	Cost	Accumulated Amortization	Net Book Value	Net book value
Power Equipment	$ 73,618,580	$ 31,740,389	$ 41,878,191	$ 38,619,386
Sundry Equipment	13,038,006	9,816,486	3,221,520	3,466,510
Survey Equipment	213,857	201,676	12,181	16,135
Repair Shop Equipment	1,017,889	761,716	256,173	71,444
Office Equipment and Furniture	1,623	416	1,207	59,110
Computer System	1,100,000	440,000	660,000	880,000
Computer Equipment	168,475	96,487	71,988	31,062
Total Capital Assets	$89,158,430	$43,057,170	$46,101,260	$ 43,143,647

Power, sundry and survey equipment, including expenditures which renovate or modify the equipment and result in a corresponding increase in the useful life of the equipment, are capitalized and recorded at cost or as determined in Note 2(b)(iii).

Amortization has been provided for in the amount of $2,929,655 in the current year (1999 - $2,941,962).

7. Capital Lease Vehicles

Details of these leased vehicles are as follows:

	Cost	Accumulated Amortization	Net Book Value
Balance March 31, 1999	4,780,750	2,324,382	2,456,368
Add: Additions/Depreciation	521,171	1,217,987	(696,816)
Less: Disposals	126,753	123,312	3,441
Balance March 31, 2000	5,175,168	3,419,057	1,756,111

Amortization has been provided for in the amount of $ 1,217,987 in the current year (1999 - $546,323).

8. Obligation under Capital Lease

The following is a schedule of future minimum lease payments under a capital lease with SPMC for non-maintenance vehicles together with the present balance of the obligation. The lease agreement effective April 1, 1987 and subsequently amended, allows vehicles to be leased for an initial term of four or six years with an annual bargain renewal option thereafter. The Revolving Fund estimates vehicles will be leased for an average of six years. Under the agreement, the Revolving Fund receives replacement vehicles on an ongoing basis from SPMC.

Year ended March 31:

2001	$ 689,291
2002	609,870
2003	422,363
2004	254,989
2005	129,895
2006 – 2008	27,669
Total minimum lease payments	$ 2,134,077
Less: Amount representing interest at rates 8% to 11%	226,703
Executory costs	218,618
	$ 1,688,756
Less: Amount due within one year	689,291
Long term lease obligation	$ 999,465

Interest of $ 100,805 (1999 - $ 272,543) is included in the expenditures of 2000.

9. Expenditures

The Revolving Funds direct expenses and general expenses are classified as follows:

	2000	1999
Operating Expenses	$13,287,866	$17,014,862
Salaries and benefits	6,227,517	5,819,805
Amortization	4,147,642	3,488,285
Other	271,469	685,277
	$23,934,494	$27,008,229

10. Net Change in Working Capital Items Related to Operations

	2000	1999
Increase/(decrease) in accounts receivable	$ (3,165,744)	$ 3,468,909
Increase/(decrease) in inventories	162,341	62,828
Decrease/(increase) in accounts payable	(1,561,582)	836,985
	$ (4,564,985)	$ 4,368,722

11. Related Party Transactions

These financial statements include transactions with related parties. The Revolving Fund is related to all Saskatchewan Crown agencies such as departments, corporations, agencies, boards and commissions under the common control of the Government of Saskatchewan. Also, the Revolving Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences.

Routine operating transactions with related parties are settled on normal trade terms. These transactions, and amounts outstanding at year-end, are as follows:

Category (as per Financial Statements)	**2000**	**1999**
Sales (Department of Highways and Transportation)	$ 20,422,781	$ 19,130,535
Accounts Receivable (Department of Highways and Transportation)	1,833,532	3,804,113
Accounts Receivable (Transportation Partnership Fund)	20,166	0
Expenses (Various Crown Corporations)	1,263,627	1,246,323
Capital Lease Principal Payments (Saskatchewan Property Management Corporation)	686,066	650,440

In addition, the Revolving Fund pays Saskatchewan Education and Health tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and the notes thereto.

In accordance with established government policy, the Revolving Fund has not been charged with certain costs including occupancy, financing, certain information system support and certain administrative costs. These costs have been absorbed by various departmental appropriations and therefore, no provision for such costs is reflected in these financial statements.

12. Budget

These amounts are included in the budget submitted to Treasury Board for approval. Treasury Board approves the Revolving Fund's budget annually. During the 1999-2000 Fiscal Year, paint for pavement line marking was no longer purchased and issued to the Department of Highways and Transportation through the Revolving Fund inventory. Instead, paint was purchased directly by Department of Highways and Transportation. As a result, actual revenues and expenses for Store Sales and Labour were significantly lower than amounts budgeted.

13. Financial Instruments

The Revolving Fund's financial instruments include accounts receivable and accounts payable. Due to their immediate and short-term nature, the fair value of these instruments approximates the carrying value.

The Revolving Fund's financial instruments also include obligations under capital leases. The fair value of this obligation approximates the carrying value because the implicit rate of interest inherent in the leases approximates the market rate of interest.

The fair value of the accumulated net expenditure has been omitted because it is not practicable to determine the fair value with sufficient reliability.

14. Commitments

The Revolving Fund is committed to purchasing construction and maintenance equipment and other goods and services valued at $641,000 in 2001.

15. Amount Reported in the Public Accounts

The net financing recovery/(requirement) of the Revolving Fund reported in the Public Accounts is the net income/(loss) of the Revolving Fund adjusted for the differences in accounting policies between the Revolving Fund and the General Revenue Fund.

	2000	1999
Net Income/(Loss)	$ 2,958,214	$ (185,482)
(Increase) in inventories	(162,342)	(62,828)
Decrease in construction materials inventory	182,944	221,657
(Increase) in construction, maintenance and other equipment	(2,957,613)	(2,162,543)
Decrease/(Increase) in capital lease vehicles	700,256	(683,500)
Increase/(decrease) in obligation under capital lease vehicles	(213,540)	(161,507)
Balance Sheet variances between RES and Revolving Fund General Ledger and amounts not included in Public Accounts due to timing	(216,798)	373,448
Net financing recovery/(requirement) reported in public accounts	$ 291,121	($ 2,660,755)

16. Comparative Figures

Certain comparative figures have been restated to conform with the current year's presentation.